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Allan G. Andrews, C.A.
Metropolitan Auditor

THE METROPOLITAN TORONTO POLICE BENEFIT FUND

Report on the audit of the books and accounts for the year ended

December 31, 1983

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

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Allan G. Andrews, C.A., *Metropolitan Auditor*

June 27, 1984

Mr. J. Burns, Chairman,
and Members of the Board of Trustees
The Metropolitan Toronto Police Benefit Fund

I have completed my audit of the operations of The Metropolitan Toronto Police Benefit Fund for the year ended December 31, 1983. The financial statements for the year then ended, together with my opinion thereon dated June 27, 1984, are attached. In this report I am commenting in some detail on the operations of the Fund and the content of significant items which appear in the financial statements.

A general background on the statutory provisions and administration of the Fund is included in Appendix I.

FUND INVESTMENTS

One of the responsibilities of the Board of Trustees is to establish appropriate policies for the investment of the assets of the Fund. Over the past several years, continuing review of investment guidelines has led to a significant restructuring of the Fund's investment portfolios.

Basically, the Trustees' objectives have been to increase the overall rate of return on invested assets so that benefits to members can be increased from time to time. More specifically, current policies are directed to achieving a reasonable return on investments, which approximates 2% in excess of the prevailing rates of inflation.

In attempting to achieve these results, the investment portfolio has been diversified to increase the emphasis on equities and growth securities while reducing the fixed income portion. Separate investment funds, both bonds and equities, have been established and placed under the management of external investment counsels.

Investment policy objectives and actual investments as at December 31, 1983 were as follows: (in thousands)

Type of Investment	Managed by Metro Toronto	Managed by Other Managers	Total	% Holding	% Objectives
Short term deposits	$19,878	$ 26,875	$ 46,753	17.7	5
Bonds					
Provincial and Federal Government	9,632	30,837	40,469	15.3	20
Municipality of Metro Toronto	14,095		14,095	5.3	5
Other Municipalities	43,900		43,900	16.6	10
Corporate	4,492	11,935	16,427	6.2	10
Mortgages		21,743	21,743	8.2	10
Equities		66,182	66,182	25.0	35
Real Estate		1,964	1,964	0.7	5
Other		13,246	13,246	5.0	
Total Investments including short term	$91,997	$172,782	$264,779	100.0	100

The summary above is based on the cost or book values of the investments held. On a market value basis, equity investments at December 31, 1983 represented about 31% of the total portfolio, with a correspondingly lower fixed income component. It should also be noted that at December 31, 1983 the equity fund managers held over $13 million in short term deposits and over $11 million in cash. If these amounts which were available for investment had actually been invested in equities, total equities would have represented about 34% of the total portfolio on a cost basis. The increase in short term investments, which is considerably in excess of the trustees' objectives, is due to fund managers holding cash rather than bond or equity positions. Fund managers have adopted this tactic due to uncertain market conditions.

Summaries of the net assets of the managed investment funds are set out in Schedules 1 to 4 to the financial statements and transactions in the funds are summarized on pages 13 and 14 of this report.

Two bond funds were established in 1978 with an initial investment of $10 million each. A third fund was established in March 1982 with an initial investment of $10 million. Additional investments of $3 million were made to each of the three funds in 1982. No additional investments, other than reinvestment of net income, were made in 1983.

Equity investments currently comprise three separate equity funds under external management. In addition to the reinvestment of net income, further investments of $3 million were made in one fund and $6 million in each of the two other funds during 1983 for a total additional investment of $15 million during the year.

Under the terms of the agreements with each of the investment counsel managing the bond and equity funds, the managers have complete discretion to invest in bonds or equities, as applicable, or to retain funds in cash or short term investments, subject to guidelines established by the Trustees from time to time. All such investments must conform with the requirements of The Pension Benefits Act and other applicable legislation.

Until 1983, the Fund's six bond and equity funds were managed by specialist managers. In 1983, the Board of Trustees considered the advantages and disadvantages of fund management by the "specialist" and "balanced" manager approach. It was decided to continue two bond funds with specialist managers and have the other four operated on balanced basis in 1984 to give the managers more freedom in investment mix.

Mortgage investments currently comprise two separate funds under external management. During the year, further net investments of $4,469,000 were made in the mortgage fund managed by The Excelsior Life Insurance Company. Each mortgage is submitted for approval by the Board of Trustees before funds are advanced to Excelsior. Funds committed are retained by Excelsior in short term investments until such time as actual advances are made under the approved mortgages. No further investments are being made in the mortgage fund managed by The Royal Trust Company. Net cash flow of $1,567,000, generated from interest income and principal repayments less management fees of $42,000, has been returned to the Benefit Fund.

In September 1983, the Board of Trustees entered into an agreement with the Excelsior Life Insurance Company for the administration of the Fund's interest in real estate. The initial investment of $1,968,000 represents the Fund's share of the asset of $2,921,000 less an assumed mortgage payable of $953,000.

Investment income earned in 1983 represented a return of approximately 12.7% (1982 - 12.1%) on average book value for the year. Amounts of income received and losses and gains realized by the investment managers are shown on page 9 of this report. It should be noted that only those gains or losses in value that are actually realized on the disposal of investments are reflected in the determination of income for the year.

At December 31, 1983, the market value of internally managed bonds and debentures was approximately $10.3 million less than the book value. Market value decreased further subsequent to that date. However, since this portfolio is not normally traded and the investments were purchased with the intention to hold them to maturity, it has not been considered necessary to make provision for or otherwise recognize the decline in the market value.

The market value of the externally managed bond and equity funds was approximately $17 million higher than cost at December 31, 1983.

The Board of Trustees obtains from outside sources periodic evaluations of investment performance which take into account the fluctuations in market value from period to period. These evaluations are felt to be a more realistic basis on which to evaluate the performance of investment managers for actively managed portfolios, such as the bond and equity funds.

REVIEW OF THE FINANCIAL STATEMENTS

Statement of Revenue, Expenditure and Accumulated Benefit Fund

Revenue for the year decreased by $8,970,000 to $49,222,000. After deducting expenditures of $10,381,000, which represented an increase of $1,705,000 over 1982, the excess of $38,841,000 was added to the accumulated benefit fund.

The decrease in revenue over 1982 reflects decreased contributions for current service of $170,000, for past service of $15,552,000 and an increase of $6,572,000 in investment income. I comment in more detail on each of these items of revenue in the following sections of this report.

The accumulated benefit fund balance of $267,721,000 represents the net assets of the Fund which, together with future contributions, are available to meet benefit obligations to the members of the Fund. As indicated in Note 4 to the financial statements, the financial statements do not show the value of benefit obligations nor the adequacy of the fund to meet such obligations. For this purpose, reference should be made to the annual report of the Fund's actuary.

CONTRIBUTIONS, CURRENT SERVICE - $10,792,000 (1982 - $10,962,000)

The normal contribution rate to the Benefit Fund is 7½% of each Officer's salary, as defined, up to the Canada Pension Plan year's maximum pensionable earnings, and 9% on the remainder, with an equal amount to be contributed by the employer.

CONTRIBUTIONS, PAST SERVICE - $8,508,000 (1982 - $24,240,000)

The past service contributions received by the Fund from the Metropolitan Corporation are made up of the following:

$ 6,617,000	-	annual payment required to fund the adoption of the "Best Five Years" formula in pension benefits.
$ 51,000	-	the annual payment established in 1960 as the cost of amortizing the past service liability resulting from the standardization of past service benefits.
$ 1,840,000	-	the annual payment required to fund the cost of improving the base year used for determining pension benefits from 1972 to 1976.

Further contributions receivable from the Municipality of Metropolitan Toronto, as set out below, will be credited to revenue as received:

$8,508,000 in 1984
$8,457,000 annually, 1985 to 1992 inclusive
$6,617,000 annually, 1993 to 1994

INVESTMENT INCOME

Investment income for the year consists of:

	1983	1982
	(in thousands)	
Internally managed bonds		
Interest	$ 6,855	$ 7,696
Gain on sale	29	
	6,884	7,696
Externally managed investment funds		
Bond funds		
Interest	6,171	5,011
Gain on sale	1,824	1,318
	7,995	6,329
Equity funds		
Dividends	2,619	1,960
Interest	1,775	2,362
Gain on sale	5,776	787
Recovery of U.S. Withholding Tax on Dividend Income	428	
	10,598	5,109
Mortgage funds interest	2,831	2,359
Real estate fund income	43	
Interest on short term deposits	1,389	1,495
	$29,740	$22,988

Bond income of $6,884,000 represents the interest earned and net gain realized on sale of a portion of the bond portfolio held and managed by the Treasury Department of the Municipality of Metropolitan Toronto and is made up as follows:

	1983	1982
	(in thousands)	
Interest received during year	$ 7,041	$ 7,654
Deduct:		
Accrued interest at beginning of year	1,819	1,863
	5,222	5,791
Add:		
Accrued interest at end of year	1,555	1,820
Net amortization of bond discounts and premiums	78	85
Gain on sale	29	
	$ 6,884	$ 7,696

The amount of $78,000 for net amortization of bond discounts and premiums represents the net difference between the interest earned on investments at the yield rate and the interest at the coupon rate.

During the year, in line with investment objectives, the Board of Trustees decided to take advantage of a favourable market condition to dispose of approximately $8 million worth of internally held bonds at a gain of $29,000.

Income from the managed investment and mortgage funds was as follows: (in thousands)

	Manager			
	Manufacturer's Life	Jarislowsky Fraser	J.R. Senecal	Total
Bond funds				
Interest	$2,395	$2,129	$1,647	$6,171
Gain on sales	1,074	251	499	1,824
	$3,469	$2,380	$2,146	$7,995
Average return	18.7%	14.3%	14.4%	16.0%

	Manager			
	Jarislowsky Fraser	Royal Trust	Beutel Goodman	Total
Equity funds				
Dividends	$1,032	$ 707	$ 880	$ 2,619
Interest	340	510	925	1,775
Gain on sales	283	3,625	1,868	5,776
Net income	$1,655	$4,842	$3,673	10,170
U.S. withholding tax recoverable				428
				$10,598
Average return	7.1%	20.4%	13.9%	14.0%

	Manager		
	Royal Trust	Excelsior Life	Total
Mortgage funds			
Interest	$1,298	$1,533	$2,831
Average return	13.8%	16.1%	15.0%

	Manager	
	Excelsior Life	Total
Real estate fund		
Net income	$ 43	$ 43
Average return	5.9%	5.9%

Income as shown above is before deduction of management fees, which have been shown separately as expenditures in the financial statements. Net income, after deduction of management fees, is retained in the managed bond and equity funds for reinvestment by the respective fund managers. Net income from managed mortgage and real estate funds is returned to the Benefit Fund.

In February 1983, the Board of Trustees authorized the engagement of the law firm of Osler, Hoskin and Harcourt to make application for a refund of the U.S. withholding tax on the Fund's investments in U.S. stocks. Refund of the 1979 withholding tax of $16,000 was received in December 1983. Total tax withheld for the years 1980 - 1983 to be received is estimated at $412,000 (including $143,000 for 1983).

PENSIONS AND OTHER BENEFITS

Pensions and other benefits paid consist of the following amounts:

	1983	1982
	(in thousands)	
Pensions paid to:		
Retired members	$ 8,415	$6,873
Beneficiaries of deceased members and pensioners	1,386	1,175
	$ 9,801	$8,048

INVESTMENT MANAGEMENT FEES - $451,000 (1982 - $344,000)

The Benefit Fund bears the expenses associated with the management, safekeeping and audit of the externally managed investment funds.

The management fees include amounts for both management and custody of the funds and are determined in accordance with fee schedules set out in separate agreements with each fund manager and with the custodian of the funds. These fees are paid from the investment fund in each case.

INVESTMENT CONSULTING FEES - $19,000 (1982 - $19,000)

This amount includes fees amounting to $9,000 (1982 - $8,000) paid to a consultant retained by the Board of Trustees to provide investment advice and to assist in the selection of managers for the managed investment and mortgage funds.

The balance represents payments in respect of investment performance evaluations.

Balance Sheet

INVESTMENTS

Investments held by the Fund at December 31, 1983 consist of the following:

	1983	1982
	(in thousands)	
Internally managed bonds and debentures issued or guaranteed by		
Government of Canada	$ 4,633	$ 7,907
Provincial Governments	4,999	5,797
Municipality of Metropolitan Toronto	14,095	15,311
Other municipalities	43,900	49,609
Corporations	4,492	4,489
	72,119	83,113
Market value - $61,815,000 (1982 - $71,593,000)		
Net assets of externally managed investment funds		
Bond funds (Schedule 1)	57,976	50,143
Market value - $58,329,000 (1982 - $52,422,000)		
Equity funds (Schedule 2)	91,099	66,153
Market value - $107,968,000 (1982 - $73,635,000)		
Mortgage funds (Schedule 3)	21,743	18,889
Real estate fund (Schedule 4)	1,964	
	$244,901	$218,298

Set out below are summaries of the transactions in the investment accounts during the year.

	1983	1982
	(in thousands)	
Internally managed bonds and debentures		
Book value, beginning of year	$ 83,113	$ 85,849
Add:		
Net amortization of discounts and premiums	78	85
	83,191	85,934
Deduct		
Investments matured and sold	11,072	2,821
Book value, end of year	$ 72,119	$ 83,113

The bond and debenture portfolio is held and managed by the Treasury Department of Metropolitan Toronto. I made a physical examination of these investments as at the end of the year and found them to be in order and registered in the name of the Benefit Fund. The book value of $72,119,000 represents the cost of the investments adjusted by amortization of the premium or discount on purchase over the term of the issue. The par value of the bonds and debentures held totals $72,675,000 at the end of the year.

	1983	1982
	(in thousands)	
Externally managed investment funds:		
Bond funds		
Book value, beginning of year	$ 50,142	$ 24,932
Cash invested during year		19,000
	50,142	43,932
Net investment income	7,995	6,329
Less management fees	161	118
	7,834	6,211
Book value, end of year	$ 57,976	$ 50,143
Equity funds		
Book value, beginning of year	$ 66,153	$ 48,598
Cash invested during year	15,000	12,600
	81,153	61,198
Net investment income	10,170	5,109
Less management fees	224	154
	9,946	4,955
Book value, end of year	$ 91,099	$ 66,153
Mortgage funds		
Book value, beginning of year	$ 18,889	$ 16,345
Net cash invested during year	2,854	2,544
Book value, end of year	$ 21,743	$ 18,889
Real estate fund		
Cash invested during year	$ 1,968	
Add principal repayment of mortgage assumed	3	
	1,971	
Less accumulated depreciation	7	
Book value, end of year	$ 1,964	

The assets of the externally managed bond and equity funds are held in safekeeping by The Canada Trust Company. The Board of Trustees appointed Coopers & Lybrand, Chartered Accountants, to provide individual audit reports on the operations and assets of each of these funds. As part of their audit procedures, they physically examined and counted securities held for each of the funds. Because of the significance to the Benefit Fund of these assets, my staff attended this examination.

The assets of the mortgage funds are held and managed by investment managers under separate management agreements.

When the Board of Trustees decided to invest in real estate in July 1983, existing legislation did not allow the Trustees to hold title to property on behalf of the Fund and an agreement was entered into with Canada Trust Company for this purpose. The Board recommended that the Metropolitan Council request the Province of Ontario to enact legislation to enable the Trustees to hold land on behalf of the Fund. This recommendation was adopted by the Metropolitan Council in September 1983 and subsequently, legislation was passed by the Province of Ontario under Bill 61 which received Royal Assent on May 29, 1984.

INTEREST RECEIVABLE - $2,486,000 (1982 - $2,259,000)

This amount represents interest on mortgages, bonds and debentures, short term deposits and bank balances which was earned in 1983 but was not received until 1984.

ACCOUNTS RECEIVABLE - $473,000 (1982 - $4,000)

Of this amount, $412,000 is the estimated amount of U.S. withholding tax on stock investments to be recovered, as mentioned on page 10 of this report.

The balance represents pension overpayments recoverable from pensioners and principal repayments receivable from Excelsior Life mortgages.

SHORT TERM INVESTMENTS - $19,878,000 (1982 - $8,860,000)

In 1982, the investment policy adopted by the Board of Trustees specified an objective of 5% be invested in short term investments. The short term investments of $8,860,000 in 1982 represented 3.9% of the total investment portfolio of the Fund, while the holding in 1983 of $19,878,000 was above target at 7.5%.

CASH - $28,000 (1982 - $14,000)

This balance has been reconciled with the amount confirmed to me directly by the Fund's banker.

ACCOUNTS AND BENEFITS PAYABLE

This is made up of:

	1983	1982
	(in thousands)	
Accrued actuarial fees	$ 4	$ 6
Accrued professional fees		11
Benefits payable	39	538
Other	2	
	$ 45	$555

GENERAL COMMENTS

1. ACTUARIAL VALUATION

As indicated in note 4 to the financial statements the statements show only the performance of the fund for 1983 and its financial position at the end of the year. The ability of the fund to meet its eventual obligations for payment of pensions and death benefits for members is examined in an actuarial report. The trustees have chosen to have such a report prepared annually.

The latest report available is for 1982 and indicates a surplus, after providing for contingencies and other requirements, of $10,746,000 (1981 - $15,725,000). According to the actuary's report, the 1982 decrease in surplus of $4,979,000 was due to settlement of the Swan award, unfavourable wage escalation and 1982 pension increases offsetting investment and other gains. Out of the total 1982 surplus, $4,202,000 was used to increase benefits to existing pensioners in 1983 by 6% and the balance was carried forward for future benefits.

2. FIDELITY BONDS AND LIABILITY INSURANCE COVERAGE

Under the surety bond of the Metropolitan Corporation, the Metropolitan Treasurer and all other employees of the Metropolitan Corporation are bonded for $1,000,000 each. Employees who handle securities are bonded for $4,000,000 in excess of the basic $1,000,000. This coverage includes the activities of such persons in the operation of this fund.

The Fund obtained, under a separate policy, liability coverage in the amount of $5,000,000 covering the actions of trustees on behalf of the Fund.

3. THE PENSION BENEFITS ACT

The operation of the fund is subject to the requirements of the Pension Benefits Act.

The Trustees of the Fund, in February, 1965, applied for registration of the Fund and approved certain amendments to the governing by-law to conform to the requirements of The Pension Benefits Act. A certificate of registration was issued by the Pension Commission of Ontario dated June 24, 1965, and I have been advised that copies of all by-law amendments made since 1964 have been sent to the Commission as required by the Act.

Section 4 of Regulation 654 issued under The Pension Benefits Act requires actuarial reports to be filed with the Commission, not more than three years apart, certifying the estimated cost of benefits in respect of service in the next succeeding year and the rule for computing such cost in subsequent years up to the date of the next report, and any surplus or any experience deficiency and liquidation contributions required over a term not exceeding five years.

A report including a statement of assets and the cost certificate at December 31, 1982, prepared by the Actuary has been filed with the Commission.

Section 6(1) of the Regulations under this Act requires the annual return for the year ended December 31, 1983 to be filed by June 30, 1984. I have examined a copy of this return to the Commission which is dated April 27, 1984.

4. ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM ACT

This Act applies to the Municipality of Metropolitan Toronto and its local boards and commissions.

Under this Act and its Regulations, an employer is not allowed to contribute to the provision of pensions for new employees hired subsequent to June 30, 1968, other than under the provisions of the Plan set up under this Act, or the Canada Pension Plan.

As the Metropolitan Board of Commissioners of Police on June 24, 1965 elected for future permanent employees to participate in O.M.E.R.S., all new employees hired subsequent to June 30, 1968 are required to become members of O.M.E.R.S. The employees hired before that date may become members of O.M.E.R.S. if (a) such election is made by the employer, and (b) 75% of the employees apply, or membership is a condition of or required by the collective agreement between the employees' union and the employer. In that event, the restrictions on the employer's contributions mentioned above would then apply to all employees.

METROPOLITAN AUDITOR

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department

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Allan G. Andrews, C.A., *Metropolitan Auditor*

June 27, 1984

AUDITOR'S REPORT

To the Members of the Board of Trustees
The Metropolitan Toronto Police Benefit Fund

I have examined the balance sheet of The Metropolitan Toronto Police Benefit Fund as at December 31, 1983 and the statement of revenue, expenditure and accumulated benefit fund for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1983 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

THE METROPOLITAN TORONTO POLICE BENEFIT FUND

BALANCE SHEET

DECEMBER 31, 1983

(with comparative figures for 1982)

	1983	1982
	(in thousands)	
ASSETS		
Investments (note 3)	$244,901	$218,298
Interest receivable	2,486	2,259
Accounts receivable	473	4
Short term investments	19,878	8,860
Cash	28	14
	$267,766	$229,435
LIABILITIES		
Accounts and benefits payable	$ 45	$ 555
Accumulated benefit fund	267,721	228,880
	$267,766	$229,435

(see accompanying notes)

THE METROPOLITAN TORONTO POLICE BENEFIT FUND

STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED BENEFIT FUND

FOR THE YEAR ENDED DECEMBER 31, 1983

(with comparative figures for 1982)

	1983	1982
	(in thousands)	
REVENUE		
Contributions (note 2)		
Current service	$ 10,792	$ 10,962
Past service	8,508	24,240
Special	182	2
	19,482	35,204
Investment income (note 3)	29,740	22,988
	49,222	58,192
EXPENDITURE		
Pensions and other benefits	9,801	8,048
Accumulated contributions refunded or transferred to other pension plans	54	207
Actuarial fees	47	42
Investment management fees	451	344
Investment consulting fees	19	19
Other expenses	9	16
	10,381	8,676
EXCESS OF REVENUE OVER EXPENDITURE	38,841	49,516
ACCUMULATED BENEFIT FUND, JANUARY 1	228,880	179,364
ACCUMULATED BENEFIT FUND, DECEMBER 31	$267,721	$228,880

(see accompanying notes)

THE METROPOLITAN TORONTO POLICE BENEFIT FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1983

1. ACCOUNTING POLICIES

(a) Investments

Investments in bonds and equity funds managed externally are carried at cost plus accumulated earnings. Investments in bonds and debentures managed internally are carried at cost adjusted by amortization of the premium or discount on purchase over the term of the issue. Mortgage funds are stated at cost. Real estate fund is stated at cost less accumulated depreciation. Depreciation on the rental building and capital improvements is provided on the sinking fund method in annual amounts increasing at the rate of 6% compounded annually which is sufficient to fully depreciate the building over its estimated useful life of 40 years.

(b) Gains and losses on investments

Gains and losses on investments are recorded only upon sale of such investments and are determined on an average cost basis.

(c) Income recognition

Income on investments is recorded on the accrual basis with dividends being recorded on the ex-dividend date.

1. ACCOUNTING POLICIES (cont'd.)

(d) Foreign currencies

Stocks purchased or sold in foreign currencies are translated into Canadian dollars using exchange rates prevailing at the date of acquisition or sale of the investments. Dividends received on foreign stocks are translated using exchange rates prevailing on the date of receipt of the dividends. Accrued dividends and market values are translated using year-end exchange rates.

2. CONTRIBUTIONS

(a) Current service contributions

	1983	1982
	(in thousands)	
From the Municipality of Metropolitan Toronto	$ 5,396	$ 5,481
From Members	5,396	5,481
Total contributions	$10,792	$10,962

(b) Past service contributions

Further contributions receivable from the Municipality of Metropolitan Toronto, to meet unfunded past service liabilities total $89,398,000 (1982 - $97,906,000). These contributions will be paid to the fund over periods ending in 1994, and will be credited to revenue as received.

3. INVESTMENTS AND INVESTMENT INCOME

(a) Investments consist of the following

	1983	1982
	(in thousands)	
Internally managed bonds and debentures	$ 72,119	$ 83,113
Market Value - $61,815,000 (1982 - $71,593,000)		
Net assets of externally managed investment funds		
Bond funds (Schedule 1)	57,976	50,143
Market value - $58,329,000 (1982 - 52,422,000)		
Equity funds (Schedule 2)	91,099	66,153
Market value - $107,968,000 (1982 - $73,635,000)		
Mortgage funds (Schedule 3)	21,743	18,889
Real estate fund (Schedule 4)	1,964	
	$244,901	$218,298

3. INVESTMENTS AND INVESTMENT INCOME (cont'd.)

(b) Investment income for the year

	1983	1982
	(in thousands)	
Internally managed bonds income	$ 6,884	$ 7,696
Externally managed investment funds		
Bond funds income	7,995	6,329
Equity funds income	10,598	5,109
Mortgage funds income	2,831	2,359
Real estate fund income	43	
Interest on short term deposits	1,389	1,495
	$ 29,740	$ 22,988

The assets of the externally managed bond and equity funds are held by a trust company under the terms of a custodial agreement. The funds are managed by certain investment managers under separate management agreements. Net income is retained by each of the managed bond and equity funds for reinvestment by the respective fund managers. A summary of the net assets held in each of the funds is set out in Schedules 1 and 2.

The assets of the externally managed mortgage and real estate funds are held and managed by investment managers under separate management agreements. A summary of the net assets held in each of the funds is set out in Schedules 3 asnd 4.

Income from the externally managed funds is recorded in the accounts of the Benefit Fund as investment income as earned. Management and mortgage acquisition fees are expensed by the Benefit Fund as incurred.

4. ACTUARIAL VALUATION

The financial statements show only the financial position of the Fund and do not purport to show the adequacy of the Fund to meet obligations for payment of pensions and death benefits to members.

The Fund was reviewed and reported on by an independent actuary as of December 31, 1982. As required by The Pension Benefits Act of Ontario the actuarial report, including a statement of assets and a cost certificate, was filed with the Pension Commission of Ontario. The actuary certified that the Fund was in satisfactory financial condition as at December 31, 1982, subject to continued payment of regular contributions by the members and the employer and the liquidation of an unfunded liability. The present value of the unfunded liability of the Benefit Fund decreased from a level of $71,630,000 as at December 31, 1981, the date of the previous actuarial report, to $67,842,000 as at December 31, 198.. The decrease was due to instalment payments made to the Fund during 1982 by the Metropolitan Toronto Corporation.

5. CHANGES IN FINANCIAL POSITION

No statement of changes in financial position has been prepared as such a statement does not give significant additional disclosure. Funds generated were equal to the excess of revenue over expenditure and were applied as follow:

	1983	1982
	(in thousands)	
Investments	$ 26,603	$ 42,574
Changes in short term assets and liabilities	12,238	6,942
	$ 38,841	$ 49,516

6. CONTINGENCIES

Pursuant to an Order of the Divisional Court dated June 15, 1982, and as confirmed by the decision of the Court of Appeal of the Province of Ontario, a member of the Fund established his right to additional credited service in the Fund for a period of employment prior to becoming a police officer. Since then other officers of the police force have made such claims, the costs of which in 1983, have been reflected in the financial statements of the Fund, but other claims may be made in future. Further, a Memorandum of Agreement, dated February 23, 1984, between the Board of Commissioners of Police and the Metropolitan Toronto Police Association provides certain police officers with the option to purchase additional periods of service in the Fund in 1985, in respect of civilian service immediately prior to becoming a police officer. The Actuarial Report for the Police Benefit Fund, as at December 31, 1983, records an increase in the total actuarial liabilities for the Active Members of $3,320,000, as at that date, to provide for the additional costs to the Fund from the provision of such additional optional service for the eligible officers.

SCHEDULE 1

THE METROPOLITAN TORONTO POLICE BENEFIT FUND
SCHEDULE OF NET ASSETS HELD IN EXTERNALLY MANAGED INVESTMENT FUNDS
DECEMBER 31, 1983
(in thousands)

	1983				1982
	Manager				
	Manufacturer's Life	Jarislowsky Fraser	J.R. Senecal	Total	Total
Bond Funds					
Bonds issued or guaranteed by:					
Government of Canada	$ 14,921	$ 3,319	$ 5,422	$ 23,662	$ 13,260
Provincial Governments	1,721	3,582	1,872	7,175	6,693
Corporations		10,138	1,797	11,935	14,253
	16,642	17,039	9,091	42,772	34,206
Short term deposits	4,578	1,328	7,710	13,616	14,481
Accrued interest	692	568	165	1,425	1,287
Cash	74	50	80	204	205
	21,986	18,985	17,046	58,017	50,179
Less accrued liabilites	13	11	17	41	36
Net Assets	$ 21,973	$ 18,974	17,029	$ 57,976	$ 50,143
Market Value of Fund	$ 21,780	$ 19,622	$ 16,927	$ 58,329	$ 52,422

SCHEDULE 2

THE METROPOLITAN TORONTO POLICE BENEFIT FUND

SCHEDULE OF NET ASSETS HELD IN EXTERNALLY MANAGED INVESTMENT FUNDS

DECEMBER 31, 1983

(in thousands)

	1983				1982
	Manager				
	Jarislowsky Fraser	Royal Trust	Beutel Goodman	Total	Total
Equity Funds					
Stocks at cost					
Canadian - common	$ 15,677	$ 16,458	$ 14,815	$ 46,950	$ 30,502
Foreign - common	8,169	2,343	7,868	18,380	16,796
Canadian - other	244		608	852	
	24,090	18,801	23,291	66,182	47,298
Short term deposits	3,763		9,496	13,259	18,113
Accrued income	169	86	224	479	399
Cash	22	11,195	29	11,246	391
	28,044	30,082	33,040	91,166	66,201
Less accrued liabilities	24	21	22	67	48
Net Assets	$ 28,020	$ 30,061	$ 33,018	$ 91,099	$ 66,153
Market Value of Fund	$ 38,188	$ 32,212	$ 37,568	$ 107,968	$ 73,635

SCHEDULE 3

THE METROPOLITAN TORONTO POLICE BENEFIT FUND

SCHEDULE OF EXTERNALLY MANAGED MORTGAGE FUNDS

DECEMBER 31, 1983

(in thousands)

			1983			1982
			Manager			
			Royal Trust	Excelsior Life	Total	Total
Mortgages						
Aggregate principal amount of mortgages maturing in the following years and bearing interest as noted:						
Number of Mortgages	Year	Interest %				
	1983		$	$	$	$ 3,501
32	1984	10.25-12.75	1,199		1,199	541
43	1985	11.00-19.50	1,388	491	1,879	1,610
19	1986	12.50-20.50	855	499	1,354	1,250
29	1987	12.75-19.50	1,062	2,543	3,605	3,840
40	1988	12.25-19.82	1,427	6,510	7,937	669
5	1989	10.50-13.50	3,306	939	4,245	3,321
2	1991	11.625		990	990	994
170			9,237	11,972	21,209	15,726
Short term investments (mortgages committed but not yet advanced)				534	534	2,604
Cash						495
Accrued interest income						64
			$ 9,237	$ 12,506	$ 21,743	$ 18,889

SCHEDULE 4

THE METROPOLITAN TORONTO POLICE BENEFIT FUND
SCHEDULE OF EXTERNALLY MANAGED REAL ESTATE FUND
DECEMBER 31, 1983

		Manager Excelsior Life (in thousands)
Rental property, at cost less accumulated depreciation		$ 2,914
Less:	Mortgage payable	950
		$ 1,964

Note:

The mortgage payable is secured by a first fixed charge against the rental property and an assignment of leases and rents.

The mortgage bears interest at 11¼% per annum and is repayable as follows until its maturity on June 1, 1987:

	(in thousands)
1984	$ 9
1985	10
1986	11
1987	920

APPENDIX 1

THE METROPOLITAN TORONTO POLICE BENEFIT FUND

GENERAL BACKGROUND

Statutory Provisions

The Municipality of Metropolitan Toronto Act sets out in Section 183 that the Metropolitan Council, on the recommendation of the Metropolitan Board of Commissioners of Police, shall provide a pension plan for the Chief of Police, constables and other police officers who are members of the Metropolitan Police Force. This section also sets out certain criteria relating to the benefits to be provided by such a plan and the basis for transfer of members' interests from the Toronto Police Benefit Fund or the pension plans of any of the area municipalities.

Acting under this authority, The Metropolitan Toronto Police Benefit Fund was established by By-law of the Metropolitan Council as from January 1, 1957. Since that time, numerous revisions have been made to the Fund. On October 27, 1981, the Metropolitan Council enacted By-law 181-81 to consolidate earlier by-laws and amendments thereto. This by-law was approved by the Ministry of Municipal Affairs and Housing on February 9, 1982 and governs the operations of the Fund from January 1, 1980, its effective date.

Administration of the Pension Plan

The administration of the Plan is vested in a Board of eight Trustees whose term of office coincides with the term of the Metropolitan Council, composed as follows:

One person who is not a member of the Fund nor a member of the Metropolitan Council, to be appointed by that Council, and who shall be the Chairman of the Board;

The Chairman of the Metropolitan Council;

The Chairman of the Metropolitan Board of Commissioners of Police;

One member of the Metropolitan Council to be appointed by the Council;

Three members to be elected by the members of the Plan;

The Metropolitan Treasurer or his Deputy who is a member ex-officio without voting rights.

A quorum of the Board is a majority of the voting members, provided that one representative of the members of the Fund, one representative of the Metropolitan Council and the Metropolitan Treasurer or his Deputy are present.

The Trustees are responsible for the receipt of all contributions to the Fund, for the keeping of records in connection therewith, for the custody of the Fund, including the investment of monies in accordance with the requirements of The Pension Benefits Act of Ontario, for the payment out of the Fund of benefits to which officers become entitled under the Plan, and for keeping a proper and correct account of all receipts and disbursements of the Fund. The Trustees are also responsible for the appointment of an Actuary and, upon receipt of his reports, for advising the Metropolitan Council of the condition of the Fund and of any necessary or desirable action to safeguard it or improve its operation.

In addition, there is a Benefit Fund Committee responsible for the detailed administration of the Plan. The Benefit Fund Committee consists of the Metropolitan Treasurer or his Deputy, the Metropolitan Solicitor or his Deputy, two members of the Metropolitan Council appointed for Council's term of office by the Council, and five members of the Police Force elected for the same term by members of the Police Force. As required by the governing by-law, all regular benefit payments by the Fund during 1983 were authorized by the Benefit Fund Committee.

The Pension Division of the Metropolitan Treasury Department carries out the day to day administration of the pension plan, maintains member and pensioner records and keeps the primary books and accounts of the Fund.

The Deputy Metropolitan Treasurer was appointed General Manager of the Fund at a meeting of the Board of Trustees held on April 7, 1983.

The Fund also bears the expense of registration fees, actuarial and legal fees authorized by the Board, and management, safekeeping and audit fees for its externally managed investment funds, etc. Other expenses incurred in the operation of the Fund are borne by the employer.

POOR

QUALITY

ORIGINAL